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K I L E M B E

COPPER COBALT LTD.



annual report

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REVIEW IN BRIEF

	<u>1966</u>	<u>1965</u>
Tons milled	1,027,247	1,029,310
Tons direct smelted	12,275	10,290
Total tons treated	1,039,522	1,039,600
Grade ore milled	1.91	1.92
Blister copper produced — long tons	15,844	16,870
Sales of metals	\$21,927,000	\$27,312,000
Operating profit	\$ 9,474,000	\$15,981,000
Net earnings	\$ 3,435,000	\$ 7,251,000
Earnings per share	\$.89	\$1.87
Average selling price, copper per pound	64.4¢	70.5¢

A map of the African continent is shown. A black dot is placed in the northern part of the continent, representing the location of the Sahara Desert. A horizontal line extends from this dot to the left edge of the map.

7 King Street East, Toronto, Canada

G. T. N. WOODROOFFE	-	-	-	-	-	-	-	President
P. N. PITCHER	-	-	-	-	-	-	-	Vice-President
A. C. CALLOW	-	-	-	-	-	-	-	Secretary
R. G. SAUNDERS	-	-	-	-	-	-	-	Treasurer

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CROWN TRUST COMPANY

302 Bay Street,
Toronto, Ontario

393 St. James St. West,
Montreal, Quebec

REGISTRAR AND TRANSFER COMPANY

140 Cedar Street - - - - New York 7, N.Y.

CANADIAN IMPERIAL BANK OF COMMERCE
Toronto, Ontario

CLARKSON, GORDON & Co., Toronto, Ontario

TILLEY, CARSON, FINDLAY & WEDD, Toronto, Ontario

Head Office, Kilembe, Uganda
Chairman of the Board and
Managing Director - - - - A. E. PUGSLEY

Wednesday, April 19, 1967 at 10.30 a.m. (E.S.T.)
Mayfair Room, King Edward Sheraton Hotel
Toronto, Canada



REPORT OF THE DIRECTORS

To the Shareholders:

Net consolidated earnings of your Company and its subsidiary, Kilembe Mines Limited, for 1966 decreased to \$3,434,914 or 89¢ per share compared to \$7,251,066 or \$1.87 per share in 1965.

PRODUCTION

Partly as a result of a chronic shortage of qualified, experienced mining and technical personnel, a substantial turnover of staff and a re-scheduling of mining practices, it was not possible to reach the level of production which had been forecast for 1966. During the first part of the year mining operations experienced a wide variety of problems including earth tremors, floods, and a period of political disturbances. Operations returned to normal during the latter part of the third quarter. However, during the months of November and December copper production again decreased due chiefly to the mining of a lower grade of ore, a condition that is expected to continue well into the first half of 1967.

FINANCIAL

Lower blister copper production and a lower price received for copper were the principal contributory factors to the decrease in earnings. In 1966 the average price received for copper produced was 64.4¢ Cdn. per pound compared to 70.5¢ Cdn. in the previous year. The price received in 1966 was also affected by sales made under fixed price contracts which appeared to be favourable at the time such contracts were negotiated but which proved to be substantially below the London Metal Exchange prices prevailing at the time the contracts were fulfilled.

There was a further general increase in production costs during the year due to the continuing rise in the cost of supplies and labour. Wages and fringe benefits increased by 21%. While metal sales during 1966 decreased by \$5,385,215 compared to the previous year, costs for transportation and selling expenses did not show a proportionate reduction due to a substantial rise in ocean freight charges.

Although dividend payments and expenditures on fixed assets and supplies were substantially reduced in 1966 from the comparable amounts for 1965 in line with the decrease in the profit level, working capital at the year-end was also down by \$650,108 from the end of 1965. Nevertheless the working capital of \$2,585,103 at December 31, 1966 represents a strong financial position.

DIVIDENDS

Dividends totalling \$1.05 per share were paid in 1966 compared to \$1.20 per share in the previous year.

For the information of shareholders resident in the United States of America we report that no portion of the dividends paid by your Company in 1966 represents a return of capital, as the dividends received from Kilembe Mines Limited were paid out of earnings of that company.

ORE RESERVES

The estimated ore reserves at year-end, compared with the previous year, were as follows:

	1966		1965	
	Tons	% Copper	Tons	% Copper
Proved	5,244,000	1.97	5,178,000	2.04
Probable	1,209,000	2.07	1,288,000	1.84
Total ore reserves	6,453,000	1.99	6,466,000	2.00

In addition to the above reserves, there are estimated to be 2,814,000 tons of possible ore grading 1.91% copper.

The ore reserve position can be considered favourable for, after the treatment of over 1,000,000 tons of ore in 1966, the reserves at the end of the year compared favourably with the reserves at the end of the prior year.

EXPLORATION AND DEVELOPMENT

Underground drilling in the Eastern Ore Deposit has been encouraging and disclosed that the ore deposits extend to a deeper horizon than expected. There is a potential for further development of ore reserves in this mine area.

Exploration work in the Bukangama section has indicated areas where more detailed work is required.

Development work of all classes carried out during the year totalled 57,413 feet compared to 66,484 feet in 1965. The shortfall in development advance was attributable mostly to a shortage of supervisory personnel.

The footage of diamond drilling carried out in all areas was 85,125 feet compared to 65,940 feet in the previous year.

In an area of the Mining Lease where previous drilling had given negative results a surface drill hole has returned some encouragement; this area is under active investigation with several drills operating.

MILLING

	1966		1965	
	Tons	% Copper	Tons	% Copper
Ore milled	1,027,247	1.91	1,029,310	1.92
Copper concentrates produced .	61,110	29.42	62,214	29.28
Recovery of copper in copper concentrates	92.35%		92.07%	

While the average throughput rate to the mills increased from 137 to 139 tons per hour, operating time was only 86.5% of possible due mainly to ore shortages.



Percentage recovery showed a slight improvement and it is planned to reduce the grade of concentrate in an effort to further increase recovery; this is possible with the excess capacity now available at the smelter. The excess capacity became available from improved operating techniques adopted in 1965.

CAPITAL EXPENDITURES

An expenditure of some \$2,531,000 was made on construction and replacement of fixed assets during the year, the principal items being:

Housing and amenities	\$1,012,000
Mining and milling equipment	974,000
Smelter and plant modifications	160,000
General equipment and buildings	286,500

The bulk of the expenditures on housing and amenities was for the benefit of African employees.

GENERAL

Kilmex Limited, an exploration company financed jointly by Kilembe Mines Limited and the Uganda Development Corporation, continued with a programme of exploration which resulted in an expenditure of some \$150,000. This work comprised reconnaissance geochemical prospecting over a large area east and south of the Kilembe Mine which established three areas of interest. The results of the work in one of the areas are sufficiently encouraging to justify diamond drilling, which will be carried out in 1967.

There was no labour unrest in Uganda during the year and the Company received constructive consideration from all Governmental Departments.

The Uganda Government in June imposed a Development Tax of 40% on copper production sold at prices in excess of £400 per long ton net after the deduction of freight and refining charges but the Government has agreed that all monies expended by the Company on exploration work outside the Mining Lease will be a direct deduction from any taxes payable under the Development Tax legislation.

The Rukirabasaija, The Omukama of Toro, Patrick David Matthew Kaboyo Olini II, successor to his late father, Sir George David Kamurasi, Rudiki III, has paid several official visits to the mine.

ACKNOWLEDGEMENT

Your directors gratefully acknowledge the efficient services rendered by Mr. A. E. Pugsley, Chairman of the Board and Managing Director of Kilembe Mines Limited, and his staff.

On behalf of the Board,

G. T. N. WOODROOFFE,

President.

Toronto, Ontario,
March 8, 1967.

STATEMENT OF SOURCE AND APPLICATION OF CONSOLIDATED FUNDS

For the Year Ended December 31, 1966

(with comparative figures for the year ended December 31, 1965)

	<u>1966</u>	<u>1965</u>
FUNDS PROVIDED:		
From operations —		
Profit for the year before minority interest	\$4,882,803	\$10,464,675
Add charges to operations which in themselves did not require a current outlay of cash:		
Amortization of mining concession	47,978	47,978
Amortization of development and preproduction expenditures	740,419	740,419
Depreciation	2,402,288	2,159,367
	<u>8,073,488</u>	<u>13,412,439</u>
FUNDS APPLIED:		
Increase in inventory of materials and supplies	452,087	1,170,058
Purchase of fixed assets (net)	2,531,158	2,954,624
Dividend paid to minority shareholders of Kilembe Mines Limited	1,669,473	2,570,984
Dividends paid to shareholders	4,070,878	4,652,432
	<u>8,723,596</u>	<u>11,348,098</u>
Excess of funds provided over funds applied (funds applied over funds provided) during the year	(650,108)	2,064,341
Working capital, beginning of year	3,235,211	1,170,870
Working capital, end of year	<u>\$2,585,103</u>	<u>\$ 3,235,211</u>

K I L E M B E

COPPER COBALT LTD.

(Incorporated under the laws of Canada)

AND ITS SUBSIDIARY

KILEMBE MINES LIMITED

(Incorporated under the laws of Uganda)

CONSOLIDATED BALANCE SHEET

ASSETS

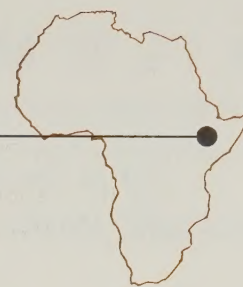
	1966	1965
CURRENT:		
Cash	\$ 2,229,142	\$ 1,337,410
Short term deposit	1,897,657	1,936,344
Metal settlements receivable (note 2)	955,441	3,369,281
Accounts receivable	493,143	252,017
Copper on hand and in process (note 2)	340,014	476,706
	<u>5,915,397</u>	<u>7,371,758</u>
FIXED AND INTANGIBLE ASSETS:		
Mining concessions, at cost	479,778	479,778
Less accumulated amortization	436,014	388,036
	<u>43,764</u>	<u>91,742</u>
Plant and equipment, at cost	24,406,269	21,875,111
Less accumulated depreciation	15,493,360	13,091,072
	<u>8,912,909</u>	<u>8,784,039</u>
Development and preproduction expenses	7,404,195	7,404,195
Less accumulated amortization	6,709,291	5,968,872
	<u>694,904</u>	<u>1,435,323</u>
MATERIALS AND SUPPLIES, at average cost	3,749,506	3,297,419
	<u><u>\$19,316,480</u></u>	<u><u>\$20,980,281</u></u>

AUDITORS

To the Shareholders of
Kilembe Copper Cobalt Ltd.:

We have examined the consolidated balance sheet of Kilembe Copper Cobalt Ltd. and its subsidiary, Kilembe Mines Limited, as at December 31, 1966 and the statements of consolidated earnings and deficit and source and application of consolidated funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

Toronto, Canada,
February 27, 1967.



DECEMBER 31, 1966 (with comparative figures at December 31, 1965)

LIABILITIES

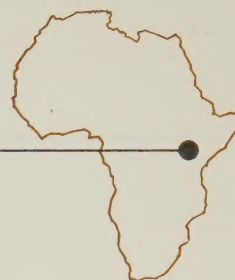
CURRENT:	1966	1965
Accounts payable and accrued charges	\$ 1,205,643	\$ 1,252,343
Provision for leave pay and passages	175,023	180,913
Provision for Uganda mining royalties	380,268	1,542,591
Provision for Uganda income taxes (note 3)	1,569,360	1,160,700
	<u>3,330,294</u>	<u>4,136,547</u>
Minority shareholders' interest in subsidiary company (30%)	<u>4,206,949</u>	<u>4,428,533</u>
SHAREHOLDERS' EQUITY:		
Capital —		
Authorized: 5,000,000 shares of par value \$1.00 each		
Issued: 3,877,027 shares	3,877,027	3,877,027
Contributed surplus	8,193,887	8,193,887
	<u>12,070,914</u>	<u>12,070,914</u>
Retained earnings (deficit)	(291,677)	344,287
	<u>11,779,237</u>	<u>12,415,201</u>
On behalf of the Board:		
G. T. N. WOODROOFFE, Director.		
J. T. McWHIRTER, Director.		
	<u>\$19,316,480</u>	<u>\$20,980,281</u>

See notes to consolidated financial statements

REPORT

In our opinion the aforementioned financial statements present fairly the financial position of the companies as at December 31, 1966 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

CLARKSON, GORDON & CO.,
Chartered Accountants.



STATEMENT OF CONSOLIDATED EARNINGS AND DEFICIT

For the Year Ended December 31, 1966

(with comparative figures for the year ended December 31, 1965)

	1966	1965
Metal sales	\$21,927,072	\$27,312,287
Deduct transportation, refining and selling expenses	2,339,233	2,233,500
Net proceeds from metal sales	<u>19,587,839</u>	<u>25,078,787</u>
Operating and administration costs:		
Development, mining, milling, smelting and mine office administration	10,054,723	9,038,379
Parent company administration	58,691	58,870
	<u>10,113,414</u>	<u>9,097,249</u>
Operating profit before the undernoted items	<u>9,474,425</u>	<u>15,981,538</u>
Amortization of mining concessions	47,978	47,978
Amortization of development and preproduction expenses	740,419	740,419
Depreciation	2,402,288	2,159,367
Prospecting and exploration expenses	230,294	110,050
	<u>3,420,979</u>	<u>3,057,814</u>
Operating profit	<u>6,053,446</u>	<u>12,923,724</u>
Other income (expense):		
Interest (net)	194,275	139,158
Profit on conversion to Canadian dollars	22,764	29,909
	<u>217,039</u>	<u>169,067</u>
Profit before mining royalty and income taxes	<u>6,270,485</u>	<u>13,092,791</u>
Provision for mining royalty (including in 1966 the reversal of \$235,000 overprovided in 1965)	(55,285)	1,467,416
Provision for income taxes (note 3)	1,442,967	1,160,700
	<u>1,387,682</u>	<u>2,628,116</u>
Profit before minority interest	<u>4,882,803</u>	<u>10,464,675</u>
Less minority shareholders' interest in profit of subsidiary	1,447,889	3,213,609
Earnings for the year	<u>3,434,914</u>	<u>7,251,066</u>
Retained earnings (deficit), beginning of year	344,287	(2,254,347)
	<u>3,779,201</u>	<u>4,996,719</u>
Deduct dividends paid of \$1.05 per share (1965 — \$1.20)	4,070,878	4,652,432
(Deficit), retained earnings, end of year	<u>\$ (291,677)</u>	<u>\$ 344,287</u>

See notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1966

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Kilembe Mines Limited (incorporated under the laws of Uganda) which is 70% owned and is the only company in which Kilembe Copper Cobalt Ltd. has any material direct or indirect interest.

Most of the expenditures and liabilities of Kilembe Mines Limited have been incurred in pounds sterling (or in East African currency which is convertible to sterling). Assets and liabilities and revenues and expenses in currencies other than Canadian dollars are translated into Canadian funds on the following basis:

Fixed and intangible assets and share capital	At the rates of exchange prevailing when the transactions giving rise to such items occurred.
Accumulated provisions for depreciation and amortization	At rates of exchange based on those prevailing when the expenditures on the related fixed and intangible assets were made.
Other assets and liabilities	At the closing rates of exchange prevailing at the end of the year.
Revenues and expenses other than depreciation and amortization	At the average monthly rates of exchange in effect during the year.
Provisions for depreciation and amortization	At the rates of exchange prevailing when the expenditures on the related fixed and intangible assets were made.

2. INVENTORY OF COPPER

Copper on hand and in process consists of copper concentrates in process of production between the mill and the completion of the smelter operation and blister copper awaiting shipment. Inventories of copper concentrates are priced at the lower of cost or estimated realizable value, the latter based on the delivered price of refined copper less transportation, refining, selling and smelting costs. Blister copper produced by the smelter is sold under contract, and is transferred to "metal settlements receivable" as shipped. Prior to shipment blister copper is included in copper inventory and priced at estimated realizable value; at December 31, 1966 blister copper in the inventory amounted to \$148,250.

3. INCOME TAXES

Kilembe Copper Cobalt Ltd. is exempt from payment of Canadian income tax while it maintains its status as a "foreign business corporation" under the provisions of the Income Tax Act (Canada).

The Government of Uganda agreed that no income tax (other than mining royalty) would be payable by Kilembe Mines Limited until the whole of the capital invested, or to be invested, in the company had been repaid out of the profits. Under this agreement income taxes became payable for the first time in 1965 on a portion of that year's profit; if the entire 1965 profit had been taxable, income taxes would have been increased and earnings decreased by approximately \$1,200,000.

